

Welcome to the ACI Construction Brief

Residential building approvals

Update: ABS residential building approvals fell by 11.0 per cent in September 2014. After reaching over 17,000 earlier in the year, the decline in September took the monthly approval volume down to 15,000 dwellings, which equates to a thirteen-month low. Despite the monthly fall, approvals were up by 1.5 per cent over the September quarter.

Insight: the result provided further evidence that the new home building cycle may have reached a ceiling. Low borrowing rates are supporting demand at elevated levels, but while households remain uncertain about job security it is hard to see new home building finding a second wind to lift activity higher still in 2015.

Non-residential building approvals

Update: the value of non-residential building jobs approved fell by 7.7 per cent in September, providing the third consecutive monthly decline. This made for a poor result in the September 2014 quarter; the value of jobs approved was 20.5 per cent lower than the corresponding period a year ago.

Insight: this is a disappointing start to the fiscal year. At a time when the economy is looking for job creation, businesses seem to lack the appetite to invest for growth. The survey of private new capital expenditure (capex), due out next week, should provide a glimpse of whether things are likely to improve as we progress through the 2014/15 year. The capex survey will also provide an indication of just how far engineering construction could fall during the year as mining construction moderates further.

Approvals research note

Update: HIA Economics released an update to its research note *The Profile for Residential Building Approvals by Type and Geography* on the 13th of November [Click here](#)

Building Approvals - September 2014 quarter

| | Momentum | Geographical growth drivers |
|---------------|----------|-----------------------------|
| Detached | ↗ | VIC, NSW, QLD |
| Semi-detached | → | VIC, NSW |
| 1 or 2 storey | ↗ | VIC, QLD, WA |
| 3 storey | ↗ | VIC, QLD, WA |
| 4+ storey | ↘ | WA, SA |

Insight: approval volumes started to ease following a peak earlier this year. Beyond the recent peak,

prospects hinge on the net effect of developments in the different types of dwellings being approved. The analysis finds that the national recovery to date, spearheaded by New South Wales and Western Australia, is being affected by moderating activity in these two key states. While growth is evident in other major states, it appears insufficient to maintain the positive momentum nationally.

RBA Statement of Monetary Policy

Update: The RBA released its quarterly *Statement of Monetary Policy* on the 7th of November. The Bank reiterated their view that Australian GDP growth is likely to track below trend in the short term before improving in the latter half of 2015 and into 2016.

Insight: While still a long way from incorporating anything into their core expectation, the impact of an economic shock stemming from a correction in the Chinese property market increasingly rates a mention in the RBA's discussion of global risks.

AIG-HIA Performance of Construction Index (PCI)

Update: The rate of expansion in the Australian PCI slowed in October 2014. Nevertheless, the latest update is still a healthy one for Australia's construction industry. Three of the four construction sectors – engineering being the predictable exception – registered expansionary readings.

Insight: The rate of expansion in both the detached house and apartment sectors is consistent with historically elevated levels of construction persisting in 2015.

Major economic development

Update: The official estimate of the Euro area GDP and Euro area inflation showed the region continues to battle economic headwinds.

Insight: The lacklustre growth combined with negligible inflation strengthens the case for the European Central Bank to embark on a program of quantitative easing.

Upcoming research

On the 24th of November HIA Economics will publish the quarterly State and National Outlooks. These are a comprehensive, up-to-date, and easy to follow account of the performance of the residential construction industry and the broader economy. The reports include all the latest residential building forecasts.

The fortnight ahead – key releases

The fortnight ahead will see a number of key updates relevant to the construction industry:

Tuesday 18 November – RBA Minutes of November 2014 Monetary Policy Meeting of the Reserve Bank Board 11:30am

Monday 24 November – HIA State and National Outlooks Spring Edition 2014 11:00am

Wednesday 26 November – ABS Construction Work Done, Australia, September Qtr 2014 11.30am

Thursday 27 November – HIA New Home Sales Report October 2014 11:00am

Thursday 27 November – ABS Private New Capital Expenditure and Expected Expenditure, Australia, September Qtr 2014 11:30am

Key construction indicators

| Key Construction Indicators - Value of Building Work Approved | | | | | | | | | |
|---|----------------------|-----------------|-------------|-------------------|--------------------------|----------------------|-----------------------|-----------------------|----------------|
| | Residential Building | | | | Non-residential Building | | | | Total |
| | Detached Dwellings | Other Dwellings | Alts & Adds | Total Residential | Commercial Buildings | Industrial Buildings | Other Non-residential | Total Non-residential | Total approved |
| September 2014 (\$'000) | 2,665,763 | 1,382,712 | 651,407 | 4,699,882 | 1,112,518 | 304,530 | 760,092 | 2,177,140 | 6,877,022 |
| Monthly Change (%) | -1.0% | -20.9% | 8.5% | -6.8% | 47.7% | 2.7% | -41.2% | -7.0% | -6.9% |
| September 2014 quarter (\$'000) | 8,337,641 | 4,592,672 | 1,882,223 | 14,812,536 | 2,741,241 | 956,143 | 3,379,711 | 7,077,096 | 21,889,632 |
| Quarterly Change (%) | 6.6% | 1.9% | 11.7% | 5.7% | 27.5% | -11.0% | -21.3% | -5.9% | 1.7% |
| Q on Q, annual change (%) | 13.3% | -9.9% | 9.9% | 4.6% | -38.5% | -27.5% | 8.2% | -20.5% | -5.1% |
| Last 12 months (\$'000) | 30,554,824 | 19,997,007 | 6,691,702 | 57,243,535 | 13,014,924 | 4,728,288 | 16,120,547 | 33,863,761 | 91,107,296 |
| Previous 12 months (\$'000) | 26,151,976 | 16,793,543 | 6,416,311 | 49,361,832 | 14,857,250 | 5,052,833 | 15,409,961 | 35,320,042 | 84,681,874 |
| Annual Change (%) | 16.8% | 19.1% | 4.3% | 16.0% | -12.4% | -6.4% | 4.6% | -4.1% | 7.6% |



AUSTRALIAN CONSTRUCTION INSIGHTS
Research powered by HIA Economics

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